

Glossary of Terms

A

Accident - A random, unforeseen and unintended event or occurrence.

Act of God - An event that is the result of natural forces and which arises without human intervention.

All Risks - An All Risks policy covers the insured against loss or damage to the property insured other than loss or damage specifically excluded.

Arbitration - A means of settling disputes legally without going to court. A qualified objective person or persons, whose appointment has been agreed by the parties involved, will hear the case and give a decision.

Average Clause - A clause in a policy requiring that, where assets are insured for less than their full value, the insured is required to bear a proportion of any loss. The proportion is the amount by which the assets are under insured expressed as a percentage of its indemnity value, at the time of the loss. Have a look at this example:

Household contents to the value of R60,000 are destroyed by fire. You have insured the household contents for R100,000 but it is found that you should have insured the contents for R150,000. That means that one third of your contents were not insured and premiums were not received by the insurers for this portion of the risk.

As a result one third of your claim will not be met and the settlement will be R40,000 less any deductibles.

Calculation: Actual sum insured x Claim = Claim settlement Value at risk

R100,000 - R60,000 = R40,000

R150,000

Automatic Inflation Adjustment Clause - The clause in a policy, which allows for the sum insured on the insured item to be adjusted throughout the period of insurance in line with an assumed rate of inflation.

B

Betterment - The amount by which the insured will benefit when lost or damaged property is restored into a better condition or replaced by a better model.

C

Claims - A demand on the insurer for indemnification for a loss incurred from an insured event.

Co-insurance - Is an arrangement whereby two or more insurers enter into a single contract with the insured to cover the insured risk in agreed proportions at an overall premium.

Common Law - That part of a country's legislation built up from customs and usages, which have been recognised by its courts and thereby given the force of law.

Comprehensive Motor Vehicle Insurance - Primarily insurance which covers any loss of, or damage to an insured motor vehicle (including motor cycles, caravans and trailers) arising from an accident, fire or theft. Also included in this cover is third party liability and property damage arising from the use of the insured motor vehicle.

Consequential Loss - A loss not directly caused by damage to property, but arising as a result of such damage.

Contract - The policy of insurance. The agreement between the insurer and the insured.

D

Depreciation - The extent to which property decreases in value due to factors such as use, age, wear and tear etc.

Disability - A physical or mental condition that makes an insured person incapable of performing one or more duties of his or her usual occupation.

Disclosure - The duty of the parties to a contract of insurance to reveal all material facts to each other before the contract is concluded and prior to renewal of the policy that might have an influence on the risk or premium charged.

E

Endorsement - Documentary evidence of a change to an existing policy, for example, change of address, increase in sum insured, etc. An endorsement may result in an additional premium, a return premium or no premium adjustment.

Exception - A peril specifically excluded from the insurance.

Excess - A policy condition whereby the insured is required to pay a portion of the loss, as stipulated in the policy (for example the first R2000 of a motor vehicle damage claim). The insurer would pay the balance over that amount. It is that part of the loss for which the insured is deemed to be uninsured and is responsible to payment. Also called a "first amount payable".

Ex Gratia Payment - A payment made to an insured as a gift outside the ambit of cover of the policy as there is no liability under the policy.

F

First Amount Payable - See "Excess" above.

Franchise – A franchise is a level below which you agree to bear the cost of your own losses up to an agreed amount. A provision in the insurance policy whereby the insurer will not pay unless damage exceeds the franchise amount

I

Indemnity - Placing the insured in the same financial position, after a loss, as he or she was prior to the occurrence.

Insurable Interest - The principle which requires a person affecting insurance to have a legally recognised relationship with the property being insured and if then loss or damage will cause the insured's estate to diminish in value.

K

Knock for Knock Agreement - An arrangement between motor vehicle insurers whereby following a collision, each insurer pays the loss for repairs to its own policy holder's vehicle, regardless of fault, provided that the vehicles involved are all comprehensively insured for accidental damage.

L

Lapse - The termination of an insurance contract through the non-payment of the premium or by the insurer's decision not to invite renewal.

Limit of Liability/Limit of Indemnity - The maximum amount for which an insurer is liable on any one loss.

Loss Adjustor Assessor - An independent, qualified person who objectively assesses the size and/or value of a loss.

M

Market Value - The price at which an investment or item can be sold or bought at any specific time within a specified market.

Material Fact - A fact that would influence a party to a contract to accept the terms of the contract including the premium payable.

Misdescription/Misrepresentation - A false description or omission of a material fact to the risk or contract.

Misrepresentation - A false statement of a material fact which can be innocent or fraudulent

N

Negligence - Failing to act in a manner a reasonable man would do given similar circumstances.

No Claims Bonus / Claim Free Group - The amount by which a renewal premium is reduced if the insured has not made a claim under the insurance policy for one or more consecutive preceding years. Applied particularly to motor comprehensive cover.

Non-Disclosure - The failure to disclose material facts before entering into a contract.

Nuclear Risks - By international agreement such risks are excluded from all insurance policies.

P

Permanent Disability - Disability which prevents a person from working in his/her usual occupation. This may be total or partial (able to still work but not in the same occupation).

Peril - A contingency or fortuitous happening which could cause a loss.

Policy - The legal document, issued by the insurer to the policyholder that outlines the conditions and terms of the insurance contract or policy wording.

Policy Fee - An amount added to the basic premium to reflect the cost of processing, printing and issuing the policy.

Premium Prescription Period/Pro Rata Premium - A pro rata adjustment of premium based on the length of time for which the insurer was actually on risk.

Proviso - A policy condition whose observance is essential for the enforcement of the contract.

Proximate Cause - The direct, dominant or specific cause of a loss or the uninterrupted chain of events that brought about the loss/or damage.

R

Reinstatement - Replace or repair the item with a new item which is not better or more expensive than the damaged item, otherwise betterment may occur. Betterment does not apply when the item is insured on a new for old basis.

Replacement Value/New for Old - An indemnity where the replacement value of property that has been lost or damaged is payable without any deduction for depreciation.

Replacement Cost - The value of property as indicated by the current retail purchase price of a similar article.

Risk - The hazard exposure or chance of loss. The term "Risk" is used also in a general way to designate the subject matter of an insurance policy. It may also be used as a generic term for the insured.

S

Self-Insurance - Insurance that a business organisation or a private person finances internally by establishing a fund to meet losses.

Subrogation - The right of one party to step into the "shoes" of another party and take up the latter's legal rights against a third party.

Sum Insured - The stated monetary amount an item is insured for or amounts of indemnity or cover under an insurance policy or extensions.

T

Territorial Limits - The geographical area within which an insured event must occur to be covered in terms of the policy.

Third Party Cover (under Motor Vehicle Insurance) - Only provides cover for legal liability for damaging Third Party property from the use of a motor vehicle.

Third Party - Any person, not a party to the insurance contract, who has an alleged or actual legal right of action for injury or damage against the person insured under the policy.

Total Loss - Loss entailing the payment of the total sum insured under an insurance policy.

U

Uberrimae Fidei - In all contracts of insurance, it is a fundamental principle that the parties must exercise the utmost good faith towards each other. Any material fact which would influence the parties to the contract must be disclosed, otherwise there are grounds for voiding the policy. This applies to both intentional and innocent failure to disclose material facts. The test of materiality is whether that fact would have influenced a prudent insurer in his decision to accept the risk and the premium to charge. The test is considered in view of all circumstances at that time, including the full circumstances of the fact undisclosed.

Under-Insurance - Insurance for a sum insured less than the value at risk.

Utmost Good Faith - See Uberrimae Fidei

V

Void - Of no legal effect. The insurance policy has no legal effect.

W

War Clause - By international agreement insurers do not underwrite war risks.

Warranty - A clause in an insurance contract presenting a condition relating to the degree of risk, non-compliance with which invalidates the contract.